

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2019/2020

### **BBF3034 – ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS** (All Sections/Groups)

16 OCTOBER 2019  
2.30 p.m - 4.30 p.m  
(2 Hours)

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#### INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

- (a) Describe the term “business analysis” and identify the **FIVE (5)** components of business analysis. (6 marks)
- (b) The difference between net income and operating cash flow is due to accruals. Identify the **TWO (2)** types of accruals and provide an example for each. (6 marks)
- (c) A firm builds a plant for RM500,000. The useful life of the plant is 5 years and the plant’s residual value is RM20,000. Identify the **THREE (3)** depreciation techniques that the firm can use and explain in detail how each techniques calculates the depreciation expense. (13 marks)

(Total: 25 marks)

**QUESTION 2**

- (a) There are various analysis tools to evaluate the financial statements. Identify and explain in details any **THREE (3)** analysis tools. (9 marks)
- (b) Your friend recommended you to buy FSA Company stock. At the beginning of year 2019, FSA Company stock was trading at RM35 per share and the firm has 1,000 shares outstanding.

At the end of year 2018, the firm’s book value of equity is RM25,000 and the net income for the year 2018 was RM15,000. The net income is expected to grow at a rate of 5% every year for the next three years after which the abnormal earnings is expected to be zero. FSA has a cost of equity capital of 10%.

By conducting a valuation analysis, determine whether you would buy FSA’s stock as at the beginning of the year 2019. (16 marks)

(Total: 25 marks)

**Continued ...**

**QUESTION 3**

- (a) There are two techniques to determine the operating cash flow. Identify and discuss the differences between these **TWO (2)** techniques used. (6 marks)
- (b) Using the following information for the year ended 2018, prepare the statement of cash flow for Sunther Corporation for the year ended 2018. Sunther's beginning cash balance in year 2018 was RM90,000.

Issuance of shares	RM55,000
Purchase of equipment	RM75,000
Cash payment for salaries	RM40,000
Sale of land	RM80,000
Sales	RM550,000
Increase in accounts receivables	RM50,000
Retirement of long-term debt	RM75,000
Cost of goods sold	20% of sales
Decrease in accounts payable	RM10,000
Increase in inventory	RM20,000
Issuance of notes payable	RM10,000
Cash payment of dividends	RM35,000
Cash payment for interest expense	RM15,000
Purchase of building	RM40,000

(19 marks)

(Total: 25 marks)

**Continued ...**

**QUESTION 4**

- (a) Return on assets (ROA) and return on equity (ROE) are the two most widely cited performance measures. Both of these ratios are return on investment (ROI) ratios. Explain how ROI ratios are typically used and why ROI may not be the best measure of company performance. (7 marks)
- (b) Several selected ratios of Surewin Corporation for the year end 2018 are shown below:

Current ratio	2
Working capital	RM40,000
Debt to equity ratio	1

Listed below are transactions that are not reflected in the ratios above. Explain (by providing justification) how each of these independent transaction affects the three ratios listed above.

- i. A land was bought for cash in year 2018. (6 marks)
- ii. Issuance of long-term debt. (6 marks)
- (c) Determine the standard deviation using the following information.

Scenario	Probability	Possible return
Bust	40%	-10%
Normal	60%	20%

(6 marks)

(Total: 25 marks)